

**COUNTY OF PLACER
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

This section of the County of Placer's (County) comprehensive annual financial report presents a discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2004. It should be read in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section. All dollar amounts are expressed in thousands unless otherwise noted.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close FY 2003-04 by \$554,059 (*net assets*). Of the net assets amount, \$163,605 in *unrestricted net assets* is available to meet ongoing obligations to citizens and creditors, \$133,199 in *restricted net assets* must be used only for specific purposes and \$257,255 is *invested in capital assets, net of related debt*.
- The County's total net assets increased by \$42,907. The increase is due to County growth as reflected by increases in property and sales taxes, operating grants and contributions, and an increase in charges for services due to rate increases.
- As of June 30, 2004, the County governmental funds reported combined fund balances of \$290,455 an increase of \$19,320 in comparison with the prior year. Approximately 87.9 percent of the combined fund balances, or \$254,961 is available to meet the County's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the General Fund, the county's largest fund, was \$82,001 or 45.8 percent of total General Fund expenditures. However, this entire amount has been budgeted either for expenditure in FY 2004-05 or is reserved for future uses, although there is usually increased carryover fund balance each year from budget savings or revenues in excess of budget.
- The County's total long-term debt increased by \$35,783 in comparison with the prior year. Due to the addition of the Gold Country Settlement Funding Corporation as part of the County's reporting entity, the County's loans payable increased \$40,485 as a result of a Corporation loan to the California County Tobacco Securitization Agency. A change in the County's policy on sick leave payout to employees accounted for a \$6,102 decrease in long-term debt. Self- insurance liabilities (general liability and worker's compensation) accounted for a \$2,300 increase in long-term debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis in this section are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) **Government-wide** financial statements, 2) **Fund** financial statements, and 3) **Notes** to the basic financial statements. **Required Supplementary Information** is included in addition to the basic financial statements.

Government-wide financial statements are designed to provide readers with a broad overview of the County finances, using accounting methods similar to those of a private-sector business. These statements provide both long-term and short-term information about the County's overall financial status. The government-wide financial statements can be found on pages 17-19 of this report.

The *Statement of Net Assets* presents information on all the County's assets and liabilities as of the end of the fiscal year, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The *Statement of Activities* presents information on how net assets changed during the fiscal year, with revenues and expenses by major type or function. Revenues and expenses are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes, intergovernmental and program revenues (*governmental activities*) from other functions that are intended to recover most or all of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public assistance, health and sanitation, public ways and facilities, recreation and cultural services and education. The business-type activities of the County include community health clinics, facilities management, food services, public transit and waste disposal.

Blended component units are included in the County's basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. Examples are the Redevelopment Agency of Placer County, the North Lake Tahoe Public Financing Authority, the Gold Country Settlement Funding Corporation and numerous County Service Areas and Special Districts governed by the Board of Supervisors. The First 5 Placer Children and Families Commission is reported as a *discretely presented component unit* because the governing body is not substantially the same as the County Board of Supervisors. For further information concerning the County component units, refer to the separately issued financial statements, which are available from the Office of the Auditor-Controller upon request.

Fund financial statements are the more familiar groupings of related accounts that are used to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state or federal law or by debt covenants. All of the County's funds can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on the shorter-termed financial resources, such as cash, that (1) have been spent on governmental programs during the fiscal year and (2) that will be available for financing such programs in the near future. The governmental funds financial statements are presented by major fund and for nonmajor funds in the aggregate on pages 20-26 of this report.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 21 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Public Safety Fund, Public Ways and Facilities Fund, Capital Improvements Fund and Capital Projects Securitization Fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for these nonmajor governmental funds are provided in the form of combining statements elsewhere in this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Proprietary funds are of two types: enterprise funds and internal service funds. These funds provide services that are usually supported in total or major part by customer fees and charges. The proprietary funds financial statements can be found on pages 27-31 of this report.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As noted previously, the County uses enterprise funds to account for Transit, Facilities, Health and Human Services, County Service Areas and Sewer Maintenance Districts.

Internal service funds are an accounting device used to accumulate and allocate costs for services to the County's various functions. The County uses internal service funds to account for its telecommunications operations, workers' compensation and risk management, employee dental and vision and unemployment insurance programs, fleet services operations and maintenance, special district's administration and operations, correction's food services and countywide technology development and maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included primarily within *governmental activities* in the government-wide financial statements, except for special districts administration and operations, which primarily benefit the county service areas, sewer maintenance districts and waste disposal operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. All of the County's enterprise funds are considered to be major enterprise funds. The County's three internal service funds are also combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds are provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds, except for agency funds, which have more limited accounting and financial statements because of their purely custodial character. The fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 34-65 of this report.

Required Supplementary Information is presented concerning budgetary comparison schedules for the General Fund and major Special Revenue Funds, as well as the schedules of funding progress. Required supplementary information can be found on pages 66-72 of this report.

Immediately following the required supplementary information, the combining and individual fund statements and schedules referred to earlier provide information for nonmajor governmental funds and internal service funds. The combining and individual fund statements and schedules can be found on pages 73-107 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, net assets (assets in excess of liabilities) were \$554,059 at June 30, 2004, the close of the County's fiscal year.

Condensed Statement of Net Assets
June 30, 2004
(in thousands)

	Governmental Activities		Business-type Activities		Total		Total
	2004	2003	2004	2003	2004	2003	(%) Change
Assets:							
Current and other assets	\$ 364,134	\$ 330,471	\$ 36,584	\$ 33,168	\$ 400,718	\$ 363,639	10.2%
Capital assets, net	198,276	198,443	89,396	87,258	287,672	285,701	0.7%
Total assets	562,410	528,914	125,980	120,426	688,390	649,340	6.0%
Liabilities:							
Current and other liabilities	28,395	23,760	1,684	3,852	30,079	27,612	8.9%
Noncurrent liabilities	96,060	64,124	8,192	8,039	104,252	72,163	44.5%
Total liabilities	124,455	87,884	9,876	11,891	134,331	99,775	34.6%
Net Assets:							
Invested in capital assets, net of related debt	171,083	170,842	86,172	82,844	257,255	253,686	1.4%
Restricted	133,199	102,880	-	-	133,199	102,880	29.5%
Unrestricted	133,673	167,308	29,932	25,691	163,605	192,999	-15.2%
Total net assets	\$ 437,955	\$ 441,030	\$ 116,104	\$ 108,535	\$ 554,059	\$ 549,565	0.8%

The largest portion of the County's net assets of \$257,255 (46.4 percent) reflects its investment in *capital assets* (e.g. land and easements, structures and improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, such as tax revenues, since the capital assets themselves cannot be used to liquidate these liabilities. Another significant portion of the County's net assets (29.6 percent) represents *unrestricted net assets* of \$163,605, which may be used to meet the County's ongoing obligations to citizens and creditors. The remaining balance of the County's net assets of \$133,199 (24.0 percent) represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

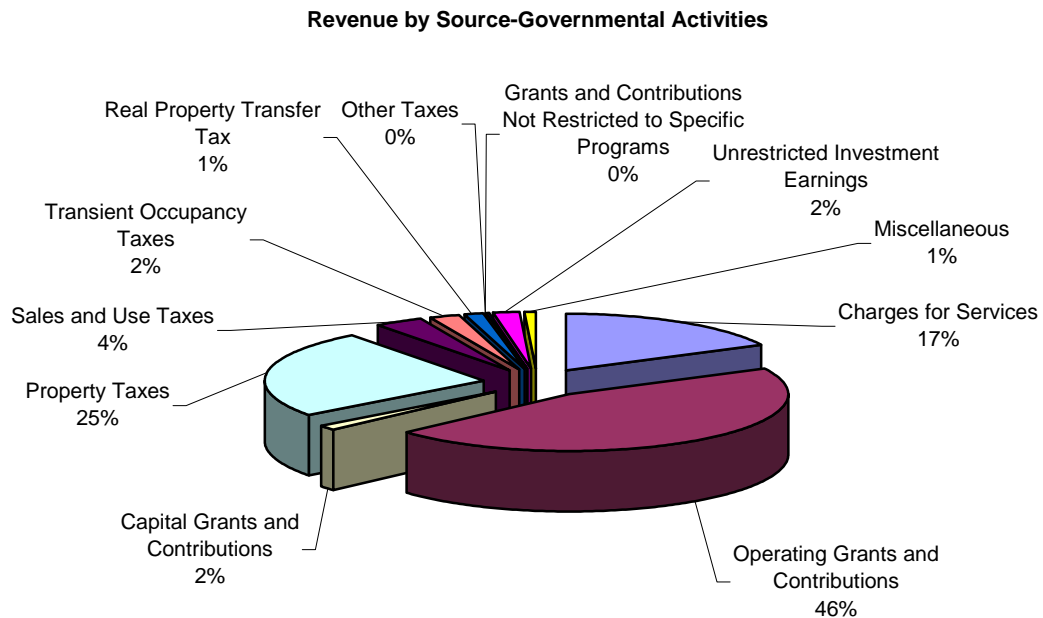
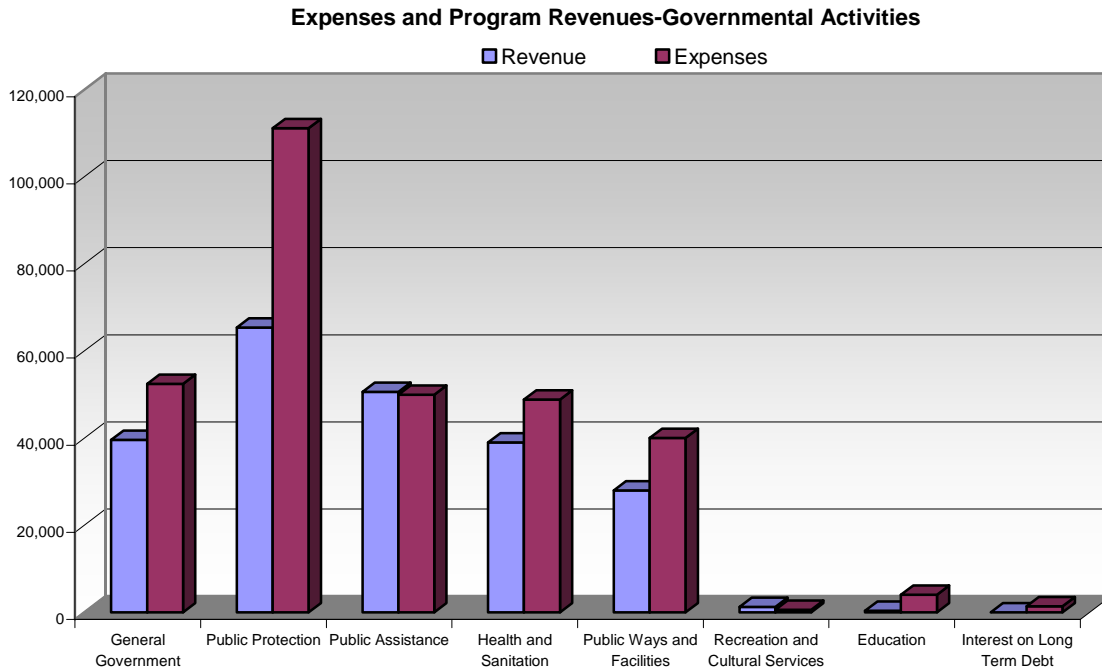
The County's total net assets increased by \$42,907. The increase is due to County growth as reflected by increases in property and sales taxes, operating grants and contributions, and an increase in charges for services due to rate increases. The following table indicates the changes in net assets for governmental and business-type activities:

Condensed Statement of Activities
For the Fiscal Year Ended June 30, 2004
(in thousands)

	Governmental Activities		Business-type Activities		Total		Total (%) Change
	2004	2003	2004	2003	2004	2003	
Revenues:							
Program revenues:							
Charges for services	\$ 60,334	\$ 64,977	\$ 18,147	\$ 18,644	\$ 78,481	\$ 83,621	-6.1%
Operating grants and contributions	158,683	160,836	7,257	10,170	165,940	171,006	-3.0%
Capital grants and contributions	5,411	5,801	4,695	5,960	10,106	11,761	-14.1%
General revenues:							
Property taxes	86,312	77,075	97	72	86,409	77,147	12.0%
Sales and use taxes	12,608	12,054	2,811	2,713	15,419	14,767	4.4%
Transient occupancy taxes	7,306	7,061	-	-	7,306	7,061	3.5%
Real property transfer tax	4,963	3,818	-	-	4,963	3,818	30.0%
Other taxes	51	97	-	-	51	97	-47.4%
Grants and contributions not restricted to specific programs	1,283	4,222	-	-	1,283	4,222	-69.6%
Tobacco settlement	2,465	-	-	-	2,465	-	-
Unrestricted investment earnings	6,828	9,423	674	864	7,502	10,287	-27.1%
Miscellaneous	2,629	3,237	-	-	2,629	3,237	-18.8%
Total revenues	<u>348,873</u>	<u>348,601</u>	<u>33,681</u>	<u>38,423</u>	<u>382,554</u>	<u>387,024</u>	<u>-1.2%</u>
Expenses:							
General government	52,503	51,166	-	-	52,503	51,166	2.6%
Public protection	111,150	105,726	-	-	111,150	105,726	5.1%
Public assistance	50,005	50,761	-	-	50,005	50,761	-1.5%
Health and sanitation	48,893	50,658	-	-	48,893	50,658	-3.5%
Public ways and facilities	40,083	29,316	-	-	40,083	29,316	36.7%
Recreation and cultural services	595	496	-	-	595	496	20.0%
Education	4,067	5,022	-	-	4,067	5,022	-19.0%
Interest on long-term debt	3,818	1,408	-	-	3,818	1,408	171.2%
Community health clinics	-	-	9,323	12,771	9,323	12,771	-27.0%
Facilities	-	-	3,323	3,603	3,323	3,603	-7.8%
Food services	-	-	-	321	-	321	-100.0%
Public transit	-	-	5,298	5,094	5,298	5,094	4.0%
Waste disposal	-	-	10,589	12,021	10,589	12,021	-11.9%
Total expenses	<u>311,114</u>	<u>294,553</u>	<u>28,533</u>	<u>33,810</u>	<u>339,647</u>	<u>328,363</u>	<u>3.4%</u>
Increase in net assets before special item and transfers	37,759	54,048	5,148	4,613	42,907	58,661	-26.9%
Transfers	(2,421)	(4,776)	2,421	4,776	-	-	0.0%
Change in net assets	35,338	49,272	7,569	9,389	42,907	58,661	-26.9%
Net assets, beginning of year, restated	402,617	353,345	108,535	99,146	511,152	452,491	13.0%
Net assets, end of year	<u>\$ 437,955</u>	<u>\$ 402,617</u>	<u>\$ 116,104</u>	<u>\$ 108,535</u>	<u>\$ 554,059</u>	<u>\$ 511,152</u>	<u>8.4%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

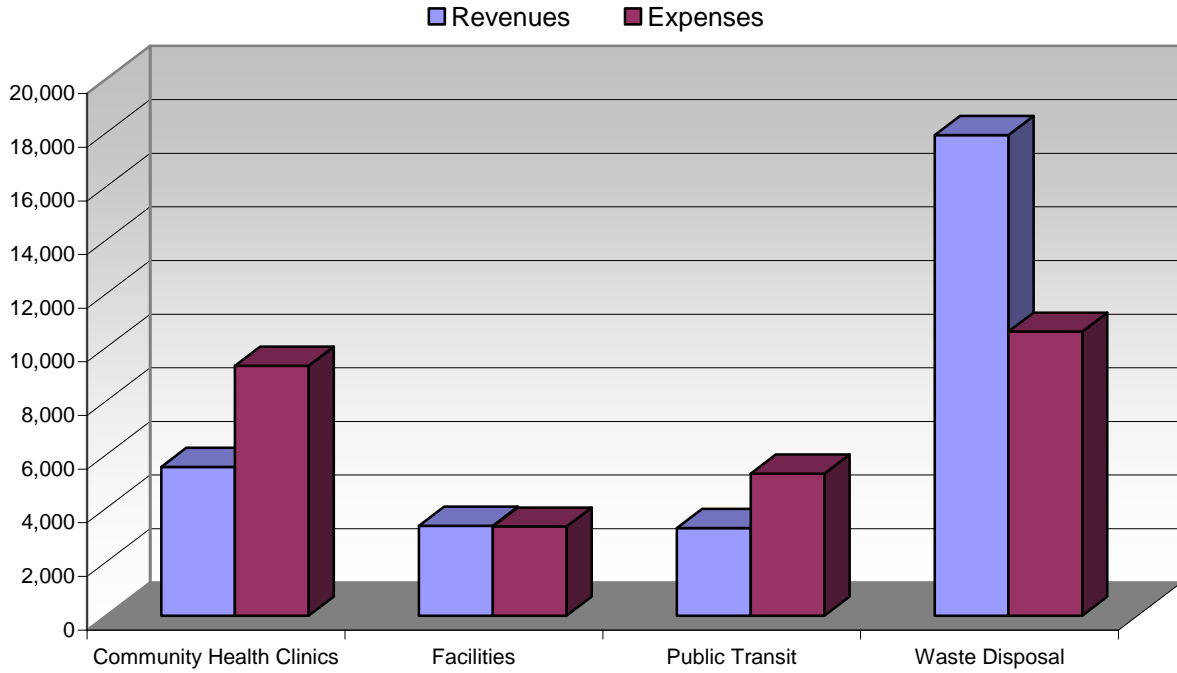
Governmental activities increased the County's net assets by \$35,337 thereby accounting for most of the increase in net assets of the County. The increase is due to County growth as reflected by increases in property taxes, operating grants and contributions, and an increase in charges for services due to rate increases.



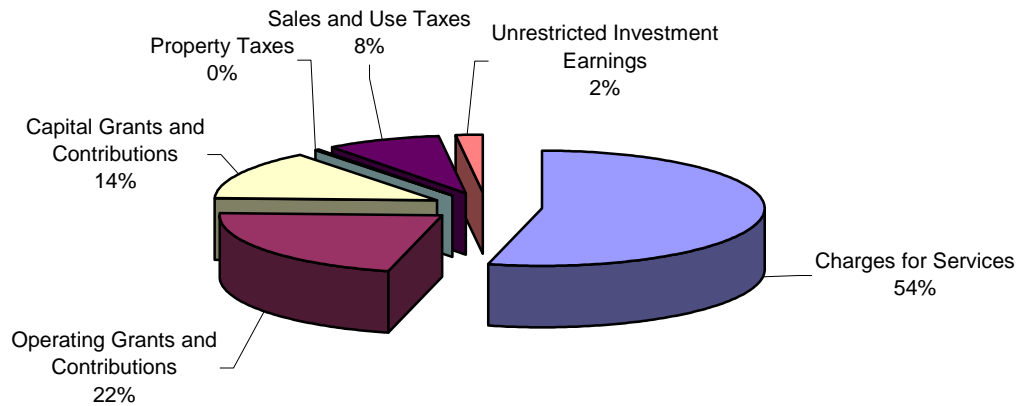
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Business-type activities increased the County's net assets by \$7,569. The key factor that contributed to this increase was increased operating and capital grants and contributions and charges for services.

Expenses and Program Revenues-Business Type Activities



Revenue by Source-Business-Type Activities



MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The County's general government functions are contained in the General, Special Revenue, Debt Service, Capital Projects Funds and Permanent Fund. Also included in these funds are the special districts governed by the Board of Supervisors. As noted previously, the focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's more immediate financing requirements.

In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At June 30, 2004, the County's governmental funds reported combined fund balances of \$290,455, an increase of \$19,320 in comparison with the prior year. Approximately 87.9 percent of the combined fund balances, or \$254,961, constitutes unreserved fund balance, which is available to meet the County's current and future needs. The remainder of fund balance is reserved indicating that it is not available for new spending because it has been committed: 1) to pay debt service; 2) to reflect inventories, prepaids and deposits from others and the amount due from other funds that are long-term in nature and thus do not represent available spendable resources; 3) to liquidate contractual commitments of the period; and 4) to a general reserve established per County policy.

The General Fund is the chief operating fund of the County. At June 30, 2004, unreserved fund balance of the General Fund was \$82,001, while total fund balance reached \$92,161. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represented 45.8 percent of total fund expenditures, while total fund balance represented 51.5 percent of that same amount. The County General Fund's fund balance increased by \$4,236 during the current fiscal year. The key factors to this increase were increases in property and sales taxes and charges for services (revenues) and a stabilization of the County's workforce leading directly to cost savings. The remaining major funds and other governmental funds' balances increased by \$15,419 to \$191,869. The key factor in this increase is due to increases in General Fund operating transfers for public protection services (Public Safety Fund) and developer fees in the Capital Improvements Fund for planned capital infrastructure expenditures in the future.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues by Source	FY 2004		FY 2003		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
Taxes	\$ 105,647	31.22%	\$ 95,244	27.80%	\$ 10,403	10.92%
Licenses, permits and franchise	6,922	2.05%	5,707	1.67%	1,215	21.29%
Fines, forfeitures and penalties	12,634	3.73%	11,456	3.34%	1,178	10.28%
Use of money and property	6,134	1.81%	8,512	2.48%	(2,378)	-27.94%
Intergovernmental	154,468	45.64%	159,855	46.67%	(5,387)	-3.37%
Charges for services	46,253	13.67%	52,652	15.37%	(6,399)	-12.15%
Contributions and donations	663	0.20%	5,337	1.56%	(4,674)	-87.58%
Tobacco settlement	2,465	0.73%	-	0.00%	2,465	-
Miscellaneous revenues	3,255	0.96%	3,786	1.12%	(531)	-14.03%
Total	<u>\$ 338,441</u>	<u>100.00%</u>	<u>\$ 342,549</u>	<u>100.00%</u>	<u>\$ (4,108)</u>	<u>-102.58%</u>

- *Taxes* increased by \$10.4 million or 10.9%. This increase is a result of the strong local real estate market as the County is the fastest-growing County in California.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

- *Charges for services* decreased \$6.4 million or 12.1%. This decrease is due to mainly to one-time infusion of approximately \$10.0 million in fees for development and mitigation in the prior fiscal year.
- *Use of money and property* decreased \$2.4 million or 27.9%. This decrease is due to average interest yield rates in the Investment Pool dropping from 3.208% in the prior year to 2.157% in the current year as a result of market conditions.
- *Contributions and donations* decreased \$4.7 million or 87.6%. This decrease is due to one-time contributions in fiscal year 2002/03 to the Public Safety Fund and the Library Fund for approximately \$1.7 million and \$2.6 million, respectively.

The following table presents the amount of expenditures by function as well as increases or decreases from the prior year displayed.

Expenditures by Function	Expenditures by Function (in thousands)					
	FY 2004		FY 2003		Increase (Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Change
General government	\$ 54,631	17.37%	\$ 48,428	15.75%	\$ 6,203	12.81%
Public protection	109,702	34.87%	104,451	33.98%	5,251	5.03%
Public assistance	50,005	15.90%	50,760	16.51%	(755)	-1.49%
Health and sanitation	48,805	15.51%	50,565	16.45%	(1,760)	-3.48%
Public ways and facilities	19,390	6.16%	18,102	5.89%	1,288	7.12%
Recreation and cultural services	523	0.17%	431	0.14%	92	21.35%
Education	3,932	1.25%	4,884	1.59%	(952)	-19.49%
Capital outlay	21,798	6.93%	27,249	8.86%	(5,451)	-20.00%
Principal paid on long-term debt	1,964	0.62%	1,096	0.37%	868	79.20%
Interest on long-term debt	3,828	1.22%	1,425	0.46%	2,403	168.63%
Total	<u>\$ 314,578</u>	<u>100.00%</u>	<u>\$ 307,391</u>	<u>100.00%</u>	<u>\$ 7,187</u>	<u>249.68%</u>

- *General government* expenditures increased \$6 million or 13% from the prior year. Special elections accounted for \$2 million, land development budget increases of \$2 million and the remaining increases were due to increased benefits to County retirees and employees.
- *Public protection* expenditures increased \$5 million or 5%. This increase is due to increased salaries and benefits for staffing at the new jail wing, court security costs and additional security services provided to the new casino.
- *Capital outlay* expenditures decreased \$5.5 million or 20%. This decrease is due to completion of major capital projects in fiscal year 2003 and a minor slowdown in construction in 2004 in anticipation of heavy construction commencing in fiscal year 2005 for three major capital projects.
- *Principal and interest* expenditures increased approximately \$3.3 million or 130% from the prior year as a result of adding the Gold Country Settlement Funding Corporation to the County's reporting entity.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The net assets of the enterprise funds increased \$7,445 to \$114,501. Most of this increase came from increased operating revenue, capital grants and contributions and charges for services. The internal service funds net assets increased by \$1,663 to \$23,496.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget for the fiscal year ended June 30, 2004 resulted in a \$4,397 increase in appropriations. The difference between the final amended budget and actual expenditures for the fiscal year ended June 30, 2004 was approximately \$33,282 and can be briefly summarized as follows:

- \$20,556 under-budget in general government expenditures due to a stabilization of the County's workforce, work-furlough programs, departmental cost savings and contingencies.
- \$8,110 and \$3,885 under-budget in health/sanitation and public assistance expenditures and public protection expenditures, respectively, due to a stabilization of the County's workforce, work-furlough programs, departmental cost savings and contingencies.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$287,673 (net of accumulated depreciation). This investment in capital assets includes land and easements, infrastructure, structures and improvements, equipment and construction in progress. The total increase in the County's investment in capital assets for the current period was less than 1 percent.

Major capital asset events during the current fiscal year included the following:

- \$9.9 million increase in land as a result of real estate purchases (\$3.3 million for Spears Ranch and \$1.0 million for other County and Redevelopment Agency projects) and \$5.6 million for easements and right of way due to road construction
- \$8.2 million decrease in construction in progress due to road maintenance and road overlay costs being expensed instead of capitalizing and depreciating

The following table presents a summary of the County's capital assets at June 30, 2004.

	Capital Assets June 30, 2004 (in thousands)						
	Governmental activities		Business-type activities		Total		% of change
	2004	2003	2004	2003	2004	2003	
Land	\$ 25,258	\$ 15,380	\$ 1,398	\$ 1,398	\$ 26,656	\$ 16,778	58.87%
Construction in progress	33,114	42,972	2,862	1,209	35,976	44,181	-18.57%
Structures and improvements	84,652	83,488	44,257	43,911	128,909	127,399	1.19%
Equipment	41,770	41,501	9,461	9,455	51,231	50,956	0.54%
Infrastructure	200,652	196,614	84,316	81,462	284,968	278,076	2.48%
Less: Accumulated depreciation	(187,170)	(181,512)	(52,897)	(50,177)	(240,067)	(231,689)	3.62%
Total	<u>\$ 198,276</u>	<u>\$ 198,443</u>	<u>\$ 89,397</u>	<u>\$ 87,258</u>	<u>\$ 287,673</u>	<u>\$ 285,701</u>	<u>0.69%</u>

More detailed information about the County's capital assets is presented in Note 4 in the basic financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Long-term debt

At June 30, 2004, the County had total long-term debt outstanding of \$109,991. This amount is comprised of \$41,392 in loans payable, \$24,805 of certificates of participation, \$11,075 of compensated absences, \$2,590 of sewer and water and lease revenue bonds, \$22,758 of self insurance liability, \$4,944 of landfill postclosure liability and \$2,427 of capital leases payable.

During the year, retirement of debt amounted to \$1,945. Additions included \$445 for new capital leases and \$597 for a new redevelopment agency loan. Compensated absences decreased \$6,100 as a result of a County sick leave policy change, while general liability and worker's compensation (self insurance liability) increased \$2,302.

Upon the adoption of GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, the County has included the Gold Country Settlement Funding Corporation as part of its reporting entity. The Corporation has a loan payable to the California County Tobacco Securitization Agency of \$40,485 at June 30, 2004.

The following table represents a summary of the County long-term debt as of June 30, 2004.

Outstanding Long-Term Debt June 30, 2004 (in thousands)							
	Governmental activities		Business-type activities		Total		% of change
	2004	2003	2004	2003	2004	2003	
Revenue bonds	\$ -	\$ -	\$ 2,590	\$ 2,856	\$ 2,590	\$ 2,856	-9.31%
Capital leases	1,792	2,081	635	791	2,427	2,872	-15.49%
Certificates of participation	24,805	25,520	-	-	24,805	25,520	-2.80%
Loans payable	41,082	-	-	-	41,082	-	-
Self insurance	22,758	20,456	-	-	22,758	20,456	11.25%
Landfill closure liability	-	-	4,944	5,018	4,944	5,018	-1.47%
Compensated absences	10,335	16,068	740	1,108	11,075	17,176	-35.52%
Total	\$ 100,772	\$ 64,125	\$ 8,909	\$ 9,773	\$ 109,681	\$ 73,898	48.42%

More detailed information about the County's long-term debt is presented in Notes 7 and 8 in the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Due to the State budget crisis and the resulting risk of significant revenue reductions from State sources, the following factors were considered in preparing the County's balanced budget for fiscal year 2004-2005:

- ❖ To develop the department requested budgets at or near fiscal year 2003-2004 base funding levels. Restrictions on expenditure growth were necessary to balance the budget and stabilize service delivery systems.
- ❖ To maintain critical operations, programs and service levels, where possible.
- ❖ Continue with planned for and previously funded infrastructure and within overall financial resources provide for investments in County "quality of life" efforts and technology.
- ❖ To maintain, where possible, adequate contingencies and reserve levels.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

In addition to the above, these factors were also considered:

- ❖ The fiscal year 2004-2005 budget relies on a year of slow paced growth and a 3% increase in the operating budget. Charges for services are expected to increase by \$8 million as a result of Board-approved fee increases and funding for capital infrastructure projects.
- ❖ The County's unemployment rate is at 4.3%, comparing favorably to the State of California rate of 5.7% and the U.S. rate of 5.1%.
- ❖ Salary and benefit costs in the County's operating funds have increased approximately \$11.1 million or 6.6% from the prior year budget. In addition to expected salary adjustments for labor contract provisions and merit step increases, the cost for employee medical, dental and vision insurance coverage continues to rise at a phenomenal rate. Also, the continuing poor performance of the investment market and sluggish economy has resulted in increased costs for contributions to the employee retirement system.
- ❖ Changes occurring in the insurance industry nationwide since the events of September 11th have caused insurance premium rates for next year's coverage to escalate upward of 100-150%. Escalating insurance costs were passed on to County departments through workers' compensation and general liability rate increases.
- ❖ The Board of Supervisors has approved a \$300 million Capital Facilities Financing Plan, including construction of the Auburn Justice Center and Land Development Buildings, renovation of the Fulweiler Administrative Annex, the South Placer Criminal Justice site acquisition and the Public Works Cabin Creek relocation.
- ❖ Currently, the State's fiscal crisis has led to a decrease in approximately \$19 million as a result of loss of \$6 million in motor vehicle license fee, \$10 million in state mandates and \$3 million as a result of an additional property tax shift. At this time, it is unknown when the County can expect repayment from the State as the State has yet to appropriate such funds.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Auditor-Controller, 2970 Richardson Drive, Auburn, CA 95603.